

55



04016840

MISSION

Washington, D.C.

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

OMB APPROVAL

OMB Number: 3235-0123

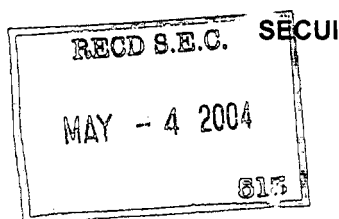
Expires: October 31, 2005

Estimated average burden

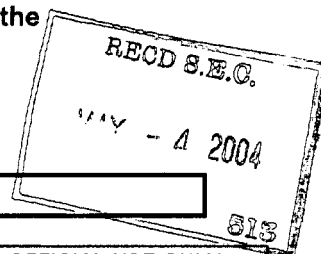
hours per response12.00

SEC FILE NUMBER

8-50758



FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT AS OF 12/31/03
MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

CTC, L.L.C.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

141 West Jackson Boulevard, Suite 700

(No. and Street)

Chicago

(City)

Illinois

(State)

60604

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Margaret Wiermanski

(Name)

(312) 863-8113

(Area Code - Telephone No)

OFFICIAL USE ONLY

FIRM ID. NO.

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ryan & Juraska, Certified Public Accountants

(Name - if individual, state last, first, middle name)

141 West Jackson Boulevard, Suite 3520

(Address)

Chicago

(City)

Illinois

(State)

60604

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAY 13 2004

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

CTC, L.L.C.

**STATEMENT OF FINANCIAL CONDITION
AND SUPPLEMENTARY SCHEDULES
PURSUANT TO SEC RULE 17a-5(d)**

**as of December 31, 2003
AVAILABLE FOR PUBLIC INSPECTION**

OATH OR AFFIRMATION

I, John Watrous, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of CTC, L.L.C. as of December 31, 2003 are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

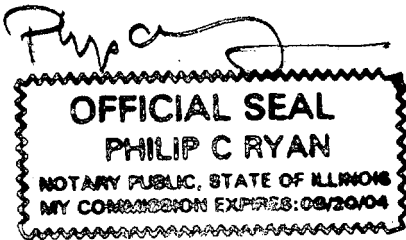
John Watrous

Signature

Member
Title

Subscribed and sworn to before me this

5 day of March, 2004



Notary Public

This report** contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- ☒ (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' Report on Internal Accounting Control.
- ☐ (p) Schedule of Segregation Requirements and Funds in Segregation – Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.10(d)(2)(iv).

**For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).



RYAN & JURASKA

Certified Public Accountants

141 West Jackson Boulevard
Chicago, Illinois 60604

Tel: 312.922.0062

Fax: 312.922.0672

INDEPENDENT AUDITORS' REPORT

To the Member of
CTC, L.L.C.

We have audited the accompanying statement of financial condition of CTC, L.L.C. as of December 31, 2003, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of CTC, L.L.C. as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The information contained in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statement, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statement taken as a whole.

A handwritten signature in cursive script, reading 'Ryan & Juraska'.

Chicago, Illinois
March 5, 2004

CTC, L.L.C.

STATEMENT OF FINANCIAL CONDITION
as of December 31, 2003

ASSETS

Cash in bank	\$ 61,305
U.S. Treasury securities owned, at fair value	192,426
Receivables from brokers and dealers	116,687,287
Securities owned, at fair value	
Long stocks	137,054,912
Long options	1,671,889,068
Investment in affiliate	1,552,859
Exchange membership, at cost (market value \$270,000)	203,000
Furniture, equipment and leasehold improvements, at cost (less accumulated depreciation and amortization of \$1,617,249)	2,557,830
Other assets	144,169
	<u>\$ 1,930,342,856</u>

LIABILITIES AND MEMBER'S EQUITY

Liabilities

Payables to broker-dealer	\$ 214,169
Securities sold, not yet purchased, at fair value	
Short stocks	218,394,567
Short options	1,686,424,032
Accounts payable and accrued expenses	5,214,977
	<u>1,910,247,745</u>

Liabilities Subordinated to Claims of General Creditors	<u>1,000,000</u>
---	------------------

Member's Equity	<u>19,095,111</u>
	<u>\$ 1,930,342,856</u>

See accompanying notes.

CTC, L.L.C.

**NOTES TO STATEMENT OF FINANCIAL CONDITION
as of December 31, 2003**

1. Organization and Business

CTC, L.L.C. (the "Company"), an Illinois limited liability company, was organized on January 7, 1998. The Company is a broker-dealer registered with the Securities and Exchange Commission and is a member of the Chicago Board Options Exchange, the American Stock Exchange, and the International Securities Exchange. The Company engages primarily in the proprietary trading of exchange-traded equity securities, equity and index options, futures contracts and options on futures contracts.

2. Summary of Significant Accounting Policies

Revenue Recognition

Securities transactions are recorded on a trade date basis, and, accordingly, gains and losses are recorded on unsettled transactions.

Depreciation and Amortization

Depreciation of furniture and equipment is computed using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Leasehold improvements are being amortized on a straight-line basis over the term of the associated lease.

Income Taxes

No provision has been made for federal income taxes as the taxable income or loss of the Company is included in the respective income tax return of the member.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Fair Value of Financial Instruments

Securities owned, securities sold, not yet purchased, and other financial instruments used for trading purposes are recorded in the statement of financial condition at market value, with related unrealized profit or loss included in net trading gain in the statement of operations. As the Company operates as a broker-dealer, all financial instruments are stated at a value that approximates fair value.

CTC, L.L.C.

**NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2003**

4. Employee Benefit Plans

The Company has established a salary reduction (401(k)) plan for qualified employees. The Company may elect to match employees' contributions and make further discretionary contributions to the plan, subject to certain limitations as set forth in the plan agreement.

The Company has also established a profit sharing plan covering substantially all of its full-time employees.

5. Clearing Agreement

The Company has a Joint Back Office ("JBO") clearing agreement with First Options of Chicago, Inc. ("FOC"). The agreement allows JBO participants to receive favorable margin treatment as compared to the full customer margin requirements of Regulation T. As part of this agreement, the Company has invested \$10,000 in the preferred shares of FOC. The Company's investment in FOC is reflected in other assets in the statement of financial condition. Under the rules of the Chicago Board Options Exchange, the agreement requires that the Company maintain a minimum net liquidating equity of \$1 million with FOC, exclusive of its preferred stock investment.

6. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

In the normal course of business the Company enters into transactions in derivative financial instruments and other financial instruments with off-balance sheet risk which include exchange-traded equity and index options, futures and options on futures contracts and short stocks.

Futures contracts provide for the delayed delivery/receipt of securities or money market instruments with the seller/buyer agreeing to make/take delivery at a specified date, at a specified price.

Options and options on futures contracts grant the purchaser, for the payment of a premium, the right to either purchase from or sell to the writer a specified instrument under agreed terms. As a writer of options and options on futures contracts, the Company receives a premium in exchange for bearing the risk of unfavorable changes in the price of the securities or money market instruments underlying the options.

Securities sold, not yet purchased, represent obligations of the Company to deliver specified securities and thereby create a liability to repurchase the securities in the market at prevailing prices. These transactions may result in off-balance sheet risk as the Company's ultimate obligation to satisfy its obligation for securities sold, not yet purchased may exceed the amount recognized in the statement of financial condition.

CTC, L.L.C.

**NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2003**

6. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk, continued

All financial instruments with off-balance sheet risk and other derivative financial instruments are held for trading purposes.

Risk arises from the potential inability of counterparties or exchanges to perform under the terms of the contracts (credit risk) and from changes in the values of securities, interest rates, currency exchange rates or equity index values (market risk).

The contractual or notional amounts related to derivative financial instruments reflect the volume and activity and do not reflect the amounts at risk. At December 31, 2003, the contract or notional amounts of derivative financial instruments used for trading purposes were as follows:

	<u>\$ Millions</u>
Futures commitments to purchase	633
Futures commitments to sell	1,602
Futures options held	36,420
Futures options written	36,665
Equity and index options held	21,872
Equity and index options written	27,110

In management's opinion, the market risk is substantially diminished when all financial instruments, including stocks owned and sold, not yet purchased, are aggregated.

At December 31, 2003, a significant credit concentration consisted of approximately \$20.4 million, representing the market value of the Company's trading accounts carried by its clearing broker, First Options of Chicago, Inc. Management does not consider any credit risk associated with this receivable to be significant.

7. Trading Activities

The Company trades in exchange traded equities, equity options, index options and financial futures and options on futures contracts.

The fair value of derivatives represents unrealized gains and losses on open futures contracts and options contracts at market value. The following table discloses the approximate fair values of derivative financial instruments held for trading as of December 31, 2003, as well as the approximate quarterly average fair values of derivatives held during 2003:

	<u>December 31, 2003</u>	<u>Average During 2003</u>
Futures assets	\$ 79,438,000	\$ 26,505,000
Futures liabilities	833,000	25,268,000
Futures options assets	105,675,000	83,886,000
Futures options liabilities	37,117,000	27,773,000
Equity & index options assets	1,671,889,000	1,589,757,000
Equity & index options liabilities	1,686,424,000	1,574,864,000

CTC, L.L.C.

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2003

8. Commitments

The Company conducts its operations in leased office facilities and annual rentals are charged to current operations. The leases are subject to escalation clauses based on the operating expenses of the lessors.

The approximate minimum annual rental commitments under non-cancelable operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Commitment</u>
2004	\$ 1,417,449
2005	1,490,128
2006	1,533,140
2007	1,577,452
2008	1,623,086
Thereafter	<u>7,741,080</u>
Total	\$ <u>15,382,335</u>

9. Contingency

On October 12, 2001, the Company entered into two joint account agreements with Bear Hunter Structured Products LLC ("BHSP"), (formerly Bear Hunter Structured Products Trading LLC). Under the first agreement, the Company and BHSP had agreed to operate a specialist joint account for the trading of index options on the American Stock Exchange. Under the second agreement, the Company and BHSP had agreed to operate upstairs trading and market maker joint accounts. Both agreements were terminated by BHSP effective October 17, 2002.

On November 14, 2002, Bear Hunter Structured Products LLC ("BHSP") filed a Statement of Claim with NASD Dispute Resolution, Inc. ("NASD") in which BHSP had requested that NASD appoint a panel of arbitrators to determine the rights and obligations of the Company and BHSP arising out of the specialist joint account agreement and the upstairs trading and market maker joint accounts agreement dated October 12, 2001.

The Company filed an Answer to the Statement of Claim on December 12, 2002. In its Answer, the Company denied certain of the allegations contained in the Statement of Claim. A final date for the arbitration hearing has not yet been set. The Company's legal counsel has indicated that it cannot evaluate the likelihood of an unfavorable outcome or estimate the amount or range of potential loss therefrom. In the opinion of management, based on consultation with legal counsel, an unfavorable outcome from these proceedings will not adversely affect the Company's operations or financial position.

CTC, L.L.C.

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
as of December 31, 2003

10. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1). Under this rule, the Company is required to maintain "net capital" equal to the greater of \$100,000 or 6 and 2/3 % of "aggregate indebtedness", as defined.

At December 31, 2003, the Company had net capital and net capital requirements of \$2,801,634 and \$347,655, respectively.

SUPPLEMENTAL SCHEDULES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART III**

BROKER OR DEALER: **CTC, L.L.C.**

as of **December 31, 2003**

COMPUTATION OF NET CAPITAL

1.	Total ownership (from Statement of Financial Condition- Item 1800)		\$	19,095,111	[3480]
2.	Deduct: Ownership equity not allowable for net capital				[3490]
3.	Total ownership equity qualified for net capital		\$	19,095,111	[3500]
4.	Add:				
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		\$	1,000,000	[3520]
	B. Other (deductions) or allowable subordinated liabilities				[3525]
5.	Total capital and allowable subordinated liabilities		\$	20,095,111	[3530]
6.	Deductions and/or charges:				
	A. Total non-allowable assets from Statement of Financial Condition (Note B and C) (See detail below)		\$	4,457,858	[3540]
	1. Additional charges for customers' and non-customers' security accounts				[3550]
	2. Additional charges for customers' and non-customers' commodity accounts				[3560]
	B. Aged fail-to-deliver				[3570]
	1. Number of items	[3450]			
	C. Aged short security differences- less reserved of	[3460]			[3580]
	2. Number of items	[3470]			
	D. Secured demand note deficiency				[3590]
	E. Commodity futures contract and spot commodities proprietary capital charges			232,238	[3600]
	F. Other deductions and/or charges				[3610]
	G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7)and (c)(2)(x)				[3615]
	H. Total deduction and/or charges		\$	(4,690,096)	[3620]
7.	Other additions and/or allowable credits (List)				[3630]
8.	Net Capital before haircuts on securities positions		\$	15,405,015	[3640]
9.	Haircuts on securities (computed, where applicable pursuant to 15c3-1(f)):				
	A. Contractual securities commitments				[3660]
	B. Subordinated securities borrowings				[3670]
	C. Trading and Investment securities				
	1. Bankers' acceptance, certificates of deposit, and commercial paper				[3680]
	2. U.S. and Canadian government obligations				[3690]
	3. State and municipal government obligations				[3700]
	4. Corporate obligations				[3710]
	5. Stocks and warrants				[3720]
	6. Options				[3730]
	7. Arbitrage				[3732]
	8. Other securities		\$	12,458,810	[3734]
	D. Undue concentration			141,642	[3650]
	E. Other (List)			2,929	[3736]
10.	Net Capital		\$	2,801,634	[3750]

OMIT PENNIES

Non-Allowable Assets (line 6.A):

Investment in affiliate	\$	1,552,859
Exchange membership		203,000
Fixed assets, net		2,557,830
Other assets		144,169
	\$	4,457,858

Note: There are no material differences between the audited computation of net capital and that per the Company's unaudited FOCUS report as filed.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART III

BROKER OR DEALER: **CTC, L.L.C.**

as of **December 31, 2003**

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A			
11.	Minimum net capital required (6-2/3% of line 19)	\$ 347,665	[3756]
12.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ 100,000	[3758]
13.	Net capital requirement (greater of line 11 or 12)	\$ 347,665	[3760]
14.	Excess net capital (line 10 less 13)	\$ 2,453,969	[3770]
15.	Excess net capital at 1000% (line 10 less 10% of line 19)	\$ 2,280,136	[3780]

COMPUTATION OF AGGREGATE INDEBTEDNESS

16.	Total A.I. liabilities from Statement of Financial Condition	\$ 5,214,977	[3790]
17.	Add:		
	A. Drafts for immediate credit		[3800]
	B. Market value of securities borrowed for which no equivalent value is paid or credited		[3810]
	C. Other unrecorded amounts (List)		[3820]
18.	Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))		[3838]
19.	Total aggregate indebtedness	\$ 5,214,977	[3840]
20.	Percentage of aggregate indebtedness to net capital (line 19 – by line 10)	186.14%	[3850]
21.	Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19- by line 10 less item 4880 page 11)	4.98%	[3853]

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B			
22.	2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c-3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries debits		[3870]
23.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	[3880]
24.	Net capital requirement (greater of line 22 or 23)	\$	[3760]
25.	Excess net capital (line 10 less 24)	\$	[3910]
26.	Percentage of Net Capital to Aggregate Debits (line 10 ÷ by line 17 page 8)		[3851]
27.	Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880, page 11 ÷ by line 17 page 8)		[3854]
28.	Net capital in excess of: 5% of combined aggregate debit items or \$300,000	\$	[3920]

OTHER RATIOS

Part C			
29.	Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)		[3860]
30.	Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ÷ Net Capital		[3852]

NOTES:

- A. The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
 1. Minimum dollar net capital requirement, or
 2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- B. Do not deduct the value of securities borrowed under subordination agreements of secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners securities which were included in non-allowable assets.
- C. For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

CTC, L.L.C.

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2003**

The Company did not handle any customer cash or securities during the year ended December 31, 2003 and does not have any customer accounts.

CTC, L.L.C.

**COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2003**

The Company did not handle any proprietary accounts of introducing brokers during the year ended December 31, 2003 and does not have any PAIB accounts.

CTC, L.L.C.

**INFORMATION RELATING TO THE POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3
as of December 31, 2003**

The Company did not handle any customer cash or securities during the year ended December 31, 2003 and does not have any customer accounts.



RYAN & JURASKA

Certified Public Accountants

141 West Jackson Boulevard
Chicago, Illinois 60604

Tel: 312.922.0062

Fax: 312.922.0672

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL**

To the Member of
CTC, L.L.C.

In planning and performing our audit of the statement of financial condition of CTC, L.L.C. (the "Company") as of December 31, 2003, we considered its internal control structure, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control.

Also, as required by Rule 17A-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); and (2) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13. We did not review the practices and procedures followed by the Company in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures, and of the practices and procedures referred to in the proceeding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the proceeding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

Our review indicated that the Company, although not exempt from Rule 15c-3-3, had no reporting requirements because it did not transact a business in securities directly with or for other than members of a national securities exchange and did not carry margin accounts, credit balances or securities for any person defined as a "customer" pursuant to Rule 17a-5(c)(4) and that, as of December 31, 2003, no facts came to our attention to indicate that such conditions were not complied with during the period.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Chicago Board Options Exchange, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Chicago, Illinois
March 5, 2004